

Message Text

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FM USMISSION NATO

TO SECSTATE WASHDC IMMEDIATE 3694

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S E C R E T SECTION 1 OF 2 USNATO 0354

E.O. 11652: XGDS, CATEGORY 1

TAGS: ENRG, NATO, PFOR

SUBJECT: ENERGY: ECONOMIC COMMITTEE REPORT ON WORLD OIL CRISIS
AND THE ALLIANCE

STATE ALSO FOR T/IEP

REF: A) USNATO 0276; B) STATE 010343

1. ECONOMIC DIRECTORATE JUST DISTRIBUTED SUMMARY
AND CONCLUSIONS TO REVISED DRAFT ECONAD REPORT TO COUNCIL
ON WORLD OIL CRISIS AND THE ALLIANCE (AC/127-WP/373), AND
WILL DISTRIBUTE UPDATED VERSION OF REST OF DOCUMENT AT
ECONOMIC COMMITTEE MEETING JANUARY 24. THE TEXT OF SUMMARY
AND CONCLUSIONS FOLLOWS BELOW.

2. COMMENT: DRAFT SUMMARY AND CONCLUSIONS CONSTITUTE
STRONG ARGUMENT IN FAVOR OF ALLIED COLLABORATION ON ENERGY
MATTERS, AND SUPPORTS U.S. ENERGY INITIATIVE. FINAL
PARAGRAPH CONCLUDES THAT THE WIDEST POSSIBLE MEASURE OF
ALLIED SOLIDARITY IS NECESSARY, AND ENDS WITH ACCURATE
DESCRIPTION OF US INITIATIVE. ECONOMIC COMMITTEE CHAIRMAN
WILL SEEK FINAL APPROVAL OF ENTIRE AC/127-WP/373 AT JANUARY 24
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MEETING SO THAT DOCUMENT MAY GO TO COUNCIL BY END OF
JANUARY. WE BELIEVE THIS IS ESSENTIAL IF ALLIES ARE TO DISCUSS
DOCUMENT BEFORE EC CONSULTATIONS AND WASHINGTON
ENERGY CONFERENCE. THIS WILL MEAN US APPROVAL

IN ECONOMIC COMMITTEE BEFORE
WASHINGTON RECEIVES UPDATED VERSION OF MAIN BODY OF DOCUMENT.
NEVERTHELESS, DRAFT SUMMARY AND CONCLUSIONS BELOW WILL SERVE
AS FOCUS OF COUNCIL DISCUSSION. AS
DEPARTMENT NOTED (REFTEL B), PREVIOUS DRAFT OF MAIN BODY
OF DOCUMENT WAS EXCELLENT WHEN DRAFTED AND MAINLY NEEDED
UPDATING. MISSION THEREFORE INTENDS TO APPROVE AC/127-WP/373
IN ECONOMIC COMMITTEE ON JANUARY 24, UNLESS DEPARTMENT
INSTRUCTS OTHERWISE. WE SHALL POUCH MAIN BODY OF DOCUMENT ON
JANUARY 24, AND CAN LATER REQUEST CORRIGENDUM IF DEPARTMENT
WANTS SPECIFIC SECTIONS CORRECTED. END COMMENT.

3. BEGIN TEXT:

ECONOMIC COMMITTEE

THE WORLD OIL CRISIS AND THE ALLIANCE

DRAFT REPORT TO THE COUNCIL

SUMMARY AND CONCLUSIONS

THE FLUID NATURE OF THE PRESENT OIL SITUATION MEANS
THAT THE CONCLUSIONS REACHED IN THE PRESENT STUDY ON THE BASIS
OF DATA CURRENTLY AVAILABLE, CAN ONLY BE TENTATIVE. ANY ATTEMPT
AT MEDIUM OR LONG-TERM FORECASTING WOULD FOR THE PRESENT HAVE TO
MAKE ALLOWANCE FOR CONSIDERABLE AREAS OF UNCERTAINTY.

2. SEEN IN PERSPECTIVE, THE MAIN DEVELOPMENT IN RELATIONS
BETWEEN OIL-PRODUCING AND OIL-CONSUMING COUNTRIES WAS NOT THE
DECISION TO CUT BACK ON PRODUCTION, TAKEN BY THE MAJORITY OF
ARAB COUNTRIES IN OCTOBER 1973 BUT THE UNANIMOUS DECISION BY THE
OPEC TO INCREASE THE PRICE OF OIL FOUR-FOLD IN THE LAST QUARTER
OF LAST YEAR.

3. THE ENERGY CRISIS CALLS INTO QUESTION THE NOTION OF
GROWTH AS EVOLVED IN THE WEST SINCE THE END OF THE SECOND WORLD
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WAR. SUCH GROWTH WAS BASED ON A PLENTIFUL AND CHEAP SUPPLY OF
ENERGY AND RAW MATERIALS TO WHICH, GENERALLY SPEAKING, THE WEST
HAD EASY ACCESS.

4. THE FUTURE PATTERN OF ECONOMIC GROWTH IN THE WEST,
PARTICULARLY IN EUROPE AND IN JAPAN, WILL HAVE TO TAKE ACCOUNT
OF THE FACT THAT THE COUNTRIES PRODUCING RAW MATERIALS, ENERGY
AND FOODSTUFFS MAY NOT BE WILLING TO TAP THEIR NATURAL RESOURCES
AT THE RATE DESIRED BY THE INDUSTRIALIZED COUNTRIES.
NORTH AMERICA, ON THE OTHER HAND, ALTHOUGH LIKEWISE AFFECTED,
HAS THE FINANCIAL, TECHNICAL AND MATERIAL MEANS AND THE
RESOURCES WHICH SHOULD ALLOW IT, AFTER A RELATIVELY SHORT
TRANSITIONAL PERIOD, TO REGAIN ITS AUTONOMY, ENERGY-WISE AND IN

THIS WAY TO ENSURE ITS ECONOMIC GROWTH.

5. BE THAT AS IT MAY, THE NEXT FIVE TO TEN YEARS WILL BE CRITICAL SINCE THE DEVELOPMENT AND USE OF ALTERNATIVE SOURCES OF ENERGY MUST INEVITABLY BE A GRADUAL PROCESS. IT IS NEVERTHELESS TO BE HOPED THAT THE INCREASE IN THE COST OF THE OPEC COUNTRIES' OIL WILL SPEED UP PROSPECTION AND THE HARNESSING OF SOURCES OF ENERGY WHICH SO FAR HAVE HARDLY BEEN TAPPED, IF AT ALL, VIZ. BITUMINOUS SAND IN CANADA, VENEZUELA AND COLOMBIA AND IF POSSIBLE, BITUMINOUS SHALE IN COLORADO, NUCLEAR ENERGY (ENRICHED OR NATURAL URANIUM), GEOTHERMAL ENERGY AND SOLAR ENERGY. SOME COUNTRIES WILL ALSO BE ABLE TO RESUME AND EXPAND COAL AND LIGNITE OUTPUT. AGAIN, OIL EXPLORATION WITHIN THE BOUNDARIES OF THE WESTERN WORLD, AND THUS IN SAFE AREAS, COULD BE PURSUED MORE ACTIVELY.

6. IN FUTURE, THE MAIN RISK FOR THE WEST, AND IN PARTICULAR, FOR WESTERN EUROPE AND JAPAN WILL BE THE CONTINUING UNCERTAINTY ABOUT PROSPECTS FOR ECONOMIC GROWTH, INVESTMENTS AND CONSUMPTION, OWING EITHER TO DISORDERLY INCREASES IN THE PRICE OF ENERGY OR TO POSSIBLE CUTBACKS IN OIL DELIVERIES SHOULD THE PRODUCING COUNTRIES DECIDE THAT THIS WAS IN THEIR ECONOMIC OR POLITICAL INTERESTS.

7. FOR THE PRESENT, THE OIL CRISIS IS MATCHED BY RUNAWAY INFLATION. THE RISE IN THE COST OF F
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11. SEVERAL WESTERN COUNTRIES WILL BE CONFRONTED WITH A SUBSTANTIAL BALANCE OF PAYMENTS DEFICIT AND THEIR MONETARY RESERVES WILL RAPIDLY DIMINISH. MAJOR IMBALANCES WILL THUS DEVELOP IN THE EXTERNAL PAYMENTS SITUATION OF THE INDUSTRIALIZED COUNTRIES. THIS PROSPECT IS HINDERING PRESENT EFFORTS TO REFORM THE INTERNATIONAL MONETARY SYSTEM.

12. IN THE LONG TERM, THE INDUSTRIALIZED COUNTRIES WILL BE UNABLE TO PAY THE OPEC COUNTRIES THE PRICE THEY DEMAND FOR OIL EACH YEAR. NOR WILL THE OPEC COUNTRIES BE ABLE TO USE THE INCREASING FLOW OF FINANCIAL RESOURCES AVAILABLE TO THEM.

13. THE OPEC COUNTRIES' ABILITY TO ABSORB FUNDS IS NOT UNLIMITED. ACCOUNT HAS TO BE TAKEN OF VARIOUS STRUCTURAL, HUMAN AND TECHNOLOGICAL OBSTACLES THAT CANNOT READILY BE OVERCOME. THEN, TOO, A CHANGE IN CAPITAL OUTLETS - INVOLVING AS IT WOULD THE TAKE-OVER OF IMPORTANT ECONOMIC SECTORS IN THE INDUSTRIALIZED COUNTRIES - COULD NOT TAKE PLACE WITHOUT SERIOUS POLITICAL AND ECONOMIC CONSEQUENCES. IN THIS CONNECTION, IT HAS BEEN CALCULATED THAT THE JOINT RESERVES OF THE OIL-PRODUCING COUNTRIES OF THE PERSIAN GULF MAY TOTAL ABOUT \$280 MILLIARDS, OR EVEN MORE(1).

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(1) IN 1973, THE GNP OF FRANCE WAS ESTIMATED AT \$218 MILLIARDS AND THAT OF THE UNITED KINGDOM AT \$150 MILLIARDS. WORLD RESERVES AT THE END OF 1973 TOTALLED APPROXIMATELY \$200 MILLIARDS

14. ARMS SALES TO THE MIDDLE EAST AND GULF COUNTRIES REPRESENT A BARGAINING COUNTER FOR THE OIL NEEDED BY THE INDUSTRIALIZED WORLD. THE MILITARY EQUIPMENT IN QUESTION IS EXTREMELY COSTLY AND SOPHISTICATED; ALSO, BEING DICTATED BY POLITICAL CONSIDERATIONS, THE DEMAND FOR ARMS IS HIGHLY FLEXIBLE. HOWEVER, IN THE MEDIUM AND THE LONG-TERM, THESE DELIVERIES COULD LEAD TO AN EXPLOSIVE SITUATION IN THIS AREA, WHERE THERE IS NO SHORTAGE OF EITHER LATENT OR LIVE CONFLICTS. THIS INVOLVES A CONSIDERABLE THREAT TO THE ALLIANCE, WHOSE OIL SUPPLIES FROM THIS PART OF THE WORLD COULD BE SEVERELY CURTAILED IN THE EVENT OF A CONFLICT.

15. IT IS CLEAR FROM THE FOREGOING THAT THE ESCALATION IN OIL PRICES HAS ALREADY REACHED AN UNCONTROLLABLE LEVEL.

16. THE PRESENT CRISIS COULD HAVE ADVERSE EFFECTS ON ALLIANCE SOLIDARITY, PARTICULARLY AT THE CONFERENCE ON SECURITY AND CO-OPERATION IN EUROPE. THE LOWERING OF THE ALLIED COUNTRIES' - AND ESPECIALLY THE EUROPEAN MEMBERS' - ECONOMIC POTENTIAL AS A RESULT OF THE HIGHER COST OF ENERGY COULD PUT THESE COUNTRIES IN AN UNFAVOURABLE POSITION VIS-A VIS THE MEMBERS OF THE WARSAW PACT. SHOULD THE PRESENT OIL CRISIS PERSIST FOR ANY LENGTH OF TIME, IT CANNOT BE RULED OUT THAT, DURING THE DISCUSSIONS ON THE ECONOMIC PART OF THE CSCE, SOME OF THE ARAB COUNTRIES MAY PUT CONSIDERABLE PRESSURE ON THE COUNTRIES OF THE ALLIANCE IN AN EFFORT TO BRING THE WESTERN

COUNTRIES' POLICIES INTO LINE WITH THEIR OWN OR THEIR ALLIES' VIEWS.

17. THE PRESENT SITUATION COULD ALSO GIVE RISE TO RENEWED ECONOMIC AND MONETARY CONFLICTS BETWEEN ALLIED COUNTRIES AS A RESULT OF WIDESPREAD DEVALUATIONS, A RETURN TO PROTECTIVE TARIFFS OR MEASURES AIMED AT ATTRACTING FOREIGN CAPITAL. ANY SUCH SITUATION WOULD RUN COUNTER TO ARTICLE 2 OF THE
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NORTH ATLANTIC TREATY. IT COULD THUS JEOPARDIZE THE VITAL INTERESTS OF THE ALLIANCE AS A WHOLE OR CERTAIN OF ITS MEMBERS, AND ESPECIALLY THOSE WHOSE ECONOMIC DEVELOPMENT IS MOST SLUGGISH.

18. FINALLY, IT IS PROBABLE THAT, BY AGGRAVATING FINANCIAL, SOCIAL AND ECONOMIC PROBLEMS, THESE UPHEAVALS WILL LEAD TO PRESSURES IN THE ALLIED COUNTRIES TO USE FOR OTHER PURPOSES RESOURCES CURRENTLY AVAILABLE FOR DEFENCE.

19. THE DEVELOPMENTS IN THE INTERNATIONAL ENERGY SITUATION HAVE BROUGHT THE PRODUCER AND CONSUMER COUNTRIES TO THE CROSS-ROADS. ALL THESE COUNTRIES ARE FACED WITH A FUNDAMENTAL CHOICE WHICH MAY HAVE A FAR-REACHING EFFECT ON INTERNATIONAL POLITICAL AND ECONOMIC RELATIONS FOR THE REAST OF THIS CENTURY.

20. CONSEQUENTLY, THERE IS A PRESSING NEED FOR THE PRODUCER AND CONSUMER COUNTRIES TO ENTER INTO MUTUAL COMMITMENTS AIMED AT ACHIEVING A FAR HIGHER DEGREE OF ECONOMIC, SOCIAL AND CULTURAL CO-OPERATION. THE CONSUMERS RECOGNIZE THE RIGHT OF THE PRODUCERS TO MAINTAIN THEIR PURCHASING POWER SO AS TO SAFEGUARD THEIR CHANCES OF FUTURE ECONOMIC DEVELOPMENT, AND THE PRODUCERS MUST RECOGNIZE THE RIGHT OF THE CONSUMERS TO RELIABLE AND REGULAR OIL SUPPLIES. THIS QUESTION IS OF PARAMOUNT IMPORTANCE FOR THE DEVELOPING COUNTRIES, WHICH ARE CERTAINLY THE HARDEST HIT BY THE RECENT RISES IN PRICE AND THE LEAST ABLE TO COPE WITH SUCH A SITUATION; THE EXTRA AMONT THEY ARE HAVING TO PAY IS EQUAL TO THE ASSISTANCE THEY RECEIVE FROM THE EWSTERN COUNTRIES.

21. IN VIEW OF THE THREAT WHICH THE PRESENT ENERGY CRISIS PRESENTS IN THE POLITICAL AND ECONOMIC SPHERES, THE WIDEST POSSIBLE MEASURE OF SOLIDARITY BETWEEN ALLIED COUNTRIES IS NECESSARY. IN THIS CONNECTION, THE COUNTRIES OF THE ALLIANCE WHICH ARE ALSO MEMBERS OF THE EUROPEAN COMMUNITY HAVE BEEN CONSULTING CLOSELY TOGETHER IN AN EFFORT TO FIND SPEEDY SOLUTIONS TO THE PROBLEMS ARISING FROM THE OIL SQUEEZE. SIMIL

<< END OF DOCUMENT >>

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